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RUEHCG/AMCONSUL CHENNAI PRIORITY 9452  
RUEHKP/AMCONSUL KARACHI PRIORITY 2512  
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SENSITIVE  
SIPDIS

DEPARTMENT FOR SCA/INSB, EEB/IFD/OIA, EEB/IFD/ODF DAVID  
WILLIAMS

E.O. 12958: N/A

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SUBJECT: SRI LANKA: INVESTMENT OPPORTUNITIES ABOUND

¶1. (SBU) Summary. With the end of the war in May, the Sri Lankan economy has enormous potential for growth and foreign investments are increasing rapidly. The Sri Lankan Government,s Board of Investment (BOI) is actively promoting foreign direct investment (FDI) in Sri Lanka to advance the country,s post-war reconstruction and development efforts, and it seeks to achieve USD 1 billion in FDI in 2009. Large-scale investment opportunities throughout Sri Lanka generally lie in the infrastructure, tourism, agriculture, and manufacturing sectors and many projects need international financial support. The BOI provides added incentives for companies that invest in difficult, rural locations, and the government is promoting investment in the north and east. A BOI delegation recently visited several U.S. cities to promote American investment in Sri Lanka. Sri Lanka is also a destination for portfolio investment, as its stock market has significantly improved since the end of the war. End summary.

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Increasing Investment Opportunities in Sri Lanka  
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¶2. (U) The end of the war has brought many commercial and investment opportunities in previously neglected areas. Sri Lanka,s infrastructure is outdated and in need of expansion, and many roads, highways, ports, and airport development projects require funding partners. There is also room for investment in cold storage facilities, railway terminals, central freight stations, and logistics centers for packing, unpacking, labeling, tagging, and storage, as well as refrigerated transport. Opportunities are also available for foreign investors to set up plants for the manufacture of pharmaceuticals, medical devices, electronics, glass bottles, plastic containers, aluminum products, corrugated cartons, etc. The BOI is promoting fisheries, agriculture, boat-building, housing, and tourism projects. The tourism sector will provide significant opportunities for foreign direct investment, particularly in the South and East, but also eventually in the North of the country.

¶3. (U) The Government of Sri Lanka created the Randora National Infrastructure Development Programme under its ten-year (2006-2016) Mahinda Chinthana development strategy. The following is a list of some of the large-scale Randora investment projects in need of foreign funding:

--Colombo-Kandy Expressway: A Rs. 65,000 million (USD 566 million) project for a 100km, four-lane expressway between

Colombo and Kandy with Rs. 52,000 million (USD 450 million) in foreign investment potential. A feasibility study and the Environmental Impact Assessment have been completed.

--National Highway Network Road Improvement: A Rs. 19,000 million (USD 165 million) project to rehabilitate 303km of national highway network, with Rs. 13,300 million (USD 116 million) foreign investment potential.

--Construction of Flyovers: A Rs. 20,000 million (USD 174 million) project with Rs. 14,000 million (USD 122 million) in foreign investment potential.

--Upgrading the Colombo-Matara Railway Line: A Rs. 19,000 million (USD 166 million) project with Rs. 15,200 million (USD 132 million) in foreign investment potential.

--Kurunegala/Dambulla/Habarana New Railway Line Development: A Rs. 24,000 million (USD 209 million) 80km new railway line with Rs. 19,200 million (USD 167 million) in foreign investment potential.

--Light Rapid Transit (LRT) System: Rs. 30,500 (USD 265 million) in foreign investment is needed to construct an LRT System for the Colombo Metropolitan Area.

--Weerawila International Airport: A domestically-funded Rs. 19,250 million (USD 168 million) project to construct a second international airport with a 4km runway, aircraft parking, taxiway, terminal building, cargo storage, fuel farm, and services building. The feasibility report has been

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completed, and land acquisition is in progress. Currently, the BOI is looking for a partner for implementation of the project.

--Bandaranaike International Airport (BIA) Phase 2: A Rs. 30,184 million (USD 263 million) project to enhance the capacity of airport facilities at BIA and accommodate increasing air traffic demand, with Rs. 25,656 million (USD 233 million) in foreign investment potential.

--Development and Improvement of Electricity Transmission Systems: Over Rs. 26,000 (USD 226 million) in foreign investment potential.

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Investment Opportunities in the North and East  
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14. (U) There are significant investment opportunities available in the Northern and Eastern Provinces. While post-conflict complications such as the resettlement of internally displaced persons and humanitarian demining still feature prominently in the North and East, particularly in the Northern Province, the government plans to promote investment and development to speed economic recovery. The government is planning two economic zones in the North and East, as well as a 100 acre export processing zone (EPZ) in the North in Killinochchi and a possible industrial zone in Parathan. The government has identified several commodities such as sugar, maize, dairy products, soya, etc. for production in the north and east, especially in the Eastern Province, which has significant agricultural potential. Emphasis is placed on locally-produced agricultural commodities to substitute for expensive imports. Additionally, several small and medium enterprises have been identified to set up manufacturing plants in the east, with special concessions for the garment industry.

15. (U) The Randora program does not include many projects specific to the North and East of the island; however, the BOI expects to have a more specific investment agenda for those areas in the coming months. The following is a list of some of the Randora investment projects in the Northern and

Eastern Provinces that are in need of foreign funding:

--Northern Expressway: Rehabilitation and development of the 213km Northern Expressway from Anuradhapura to Jaffna via Vavuniya, with Rs. 90,000 million (USD 784 million) in foreign investment potential.

--Trincomalee Export Processing Zone (EPZ): A Rs. 10,080 million (USD 88 million) project to build a 675 sq. km. EPZ and transform Trincomalee into a vibrant industrial base, with Rs. 7,056 million (USD 62 million) in foreign investment potential.

--Rural Electrification: Rs. 10,800 million (USD 94 million) project to provide electricity to rural villages, particularly in the Northern and Eastern Provinces, with Rs. 8,162 million (USD 71 million) in foreign investment potential.

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Sri Lanka Board of Investment Incentives  
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¶6. (U) The Sri Lankan Board of Investment (BOI) is actively promoting foreign direct investment (FDI) in Sri Lanka to advance the country's post-war reconstruction and development efforts. The BOI seeks to achieve USD 1 billion in FDI in 2009. Thus far it has attained well over half of that amount, which is a significant feat considering the state of the global economy. FDI for 2008 was a record USD 889 million. The BOI offers three to five year tax holidays, depending on the level of investment, the number of employees hired, the location of the project, and the sector. Additionally, imports of both capital goods and raw materials are duty-free for export-oriented industries and services. Only capital goods can be imported duty-free for infrastructure projects, IT and IT enabled services, regional

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operating headquarters, agriculture, and research and development projects.

¶7. (U) The BOI does not yet have a specific set of incentives for investments made in the North and East of Sri Lanka, but it does provide extra incentives for companies that invest in rural areas outside the Colombo and Gampaha districts. The Government of Sri Lanka launched a new scheme called Nipayum Sri Lanka, (commonly referred to as the 300 Enterprises Program) under its Mahinda Chinthana development program. The Nipayum Sri Lanka program is designed to bring development and employment opportunities to rural areas by providing incentives for companies that invest in these areas. Rural areas outside Colombo and Gampaha districts are classified as Non-Difficult Areas, Difficult Areas, and Most Difficult Areas, and incentives increase according to the level of difficulty for investment. Most areas in the Northern and Eastern Provinces fall under the Most Difficult category; thus, companies investing in these areas are eligible for significant tax holidays and other incentives.

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BOI Investment Promotion Trip to the United States  
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¶8. (U) The Minister of Enterprise Development and Investment Promotion, Anura Priyadarshana Yapa, along with the director of investment promotion and other BOI staff recently traveled to the United States to promote U.S. investment in Sri Lanka. The delegation visited Los Angeles, San Jose, New York and Washington, DC and met with chambers of commerce, potential investors, and U.S.-based Sri Lankan entrepreneurs, as well as senior officials in the U.S. Department of Commerce and USTR. They also sought to leverage contacts within the Sri Lankan diaspora and publicize Sri Lanka as a safe place for forward-thinking U.S. investors to invest. The BOI targets U.S. investment in the following sectors: information technology and business process outsourcing, infrastructure,

tourism, agriculture and food processing, electrical and electronic products, as well as the manufacture of garments, fabrics and accessories.

¶9. (U) Local media report that the BOI,s investment promotion trip to the U.S. leveraged an expected \$25 million in FDI from companies in the West Coast of the U.S. for 2009. As a result of numerous promotional meetings, the Sri Lankan delegation identified several investment projects, including: shrimp farming, manufacture/distribution of spare parts for Japanese cars, 100 acre eco-park for organic herb cultivation and health resort, television assembly plant, residential development project with 25 luxury homes, call center and manufacturing facility for telephone equipment, and operational systems for the global hospitality industry. Local media did not mention the names of U.S. companies that would be involved in these projects, nor did it mention any details or specific dollar figures for the proposed projects. The BOI does not have country-specific goals for FDI, so it is unclear how much direct investment Sri Lanka hopes to obtain from the United States in 2009.

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Sri Lanka Is a Destination for Portfolio Investment  
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¶10. (U) Sri Lanka is also a haven for portfolio investment, as its stock market has seen significant improvement since the end of the war in May. Colombo,s war-torn stock market fell 40% in 2008, but the Sri Lankan All-Share index has jumped 25% since May, and it is up 60% for this year. U.S. investors can seek mutual funds that invest in exotic markets to take advantage of Sri Lanka,s potential. Powerhouse conglomerate John Keells Holdings is at the heart of Colombo,s peace portfolio,, and the company is worth about 10% of the \$7 billion Colombo stock market. Another avenue for investors is the large, well-managed plantation houses such as Ceylon Tea Services, whose shares have gained about 20% in the last year. Additionally, Singapore-based Calamander Capital, the first private-equity fund focused solely on Sri Lanka, emerged this year and is taking stakes in tea, timber, rubber, property and banking.

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Comment  
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¶13. (SBU) Comment. Sri Lanka has significant potential for growth, particularly if infrastructure improvements provide increased efficiency and facilitate Sri Lanka,s growth as a logistical hub. Nevertheless, Sri Lanka,s long term success will also depend on political reconciliation between the country,s ethnic communities. Post will continue to follow how post-war economic plans are affecting the battle-scarred North and East and whether the people in those areas are able to benefit from new economic opportunities. End Comment.  
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